

Overview

Despite a small recovery at the start of the year, the economic environment for 2010 continues to be uncertain.

Whilst we have enjoyed an active start to the year, we remain cautious but enthusiastic about the future.

In this newsletter we provide an overview of our new investments, bolt-on acquisitions, as well as an update on a selection of our portfolio companies. This edition's guest article, "Building a Fund Management Business in a Changing Environment", is by Mike O'Shea, Chief Executive of Premier Asset Management.

Half Year Results

In May our major client, Electra Private Equity PLC ("Electra"), posted its half-year results to 31 March 2010.

In the six months to 31 March 2010 the net asset value increased by 10% on the back of signs of recovery in trading for some of its portfolio companies. Electra's share price increased by 132.2% over the year to 31 March 2010 which compared to a 46.7% increase in the FTSE All-Share Index over the same period.

Electra's stable portfolio means that it is able to concentrate its efforts on seeking new investment opportunities. This has resulted in £138 million of investment over the six months in two new investments together with further investments in existing portfolio companies. Realisations totalled £75 million for the period.

As at 31 March 2010 there was no net gearing in Electra. With £233 million of investment capacity Electra is in a good position to pursue further opportunities.

If you would prefer to receive this newsletter electronically please email Nick Board at nboard@electrapartners.com.

New investments

esure[®]

In February 2010 we invested £29.7 million in the £185 million management buyout of esure from Lloyds Banking Group, led by Peter Wood, founder and CEO of esure. The transaction was unleveraged.

Founded in 2000 as a joint venture between Peter Wood and Halifax, esure offers car, home, pet and travel insurance over the internet and by phone. In 2005 the business launched the Sheila's Wheels brand marketing car, home and travel insurance primarily to women. Now one of the UK's leading motor insurers, esure has some 1.3 million motor and 0.4 million home insurance policyholders. Peter Wood is a highly experienced and successful entrepreneur having founded Direct Line in 1985, the first telephone only insurance company in the UK.

The motor insurance market has been going through a difficult trading period over the past couple of years and the company has not been immune to this. However esure has taken a number of initiatives to mitigate this, including premium increases (along with the whole market) which will have a beneficial effect on financial performance in the medium term.



"We are delighted to be involved in this deal; esure has a great brand and is managed by an entrepreneur with a fantastic track record."

Tim Syder
Deputy Managing Partner

Kalle

In February 2010 we also invested €10.5 million (£9 million) in Kalle, the global manufacturer of artificial sausage casings and sponge cloths.

Based in Germany, Kalle is a market leader in its segment of the resilient food sector. The firm offers a portfolio of high quality products (12,000 different products supplied to c.1,100 customers in 80 countries), benefits from significant production efficiencies, and is well positioned to continue to outperform the market. As the most innovative polymer and value adding casings supplier in the world, Kalle has a track record and future pipeline of product innovations.

Electra's investment, in conjunction with other private equity investors, will support the business's development of new products and its global buy and build strategy.



"Kalle is a market leader in its field and we are delighted to be investing in this deal. This is another example of a defensive sector investment with strong upside potential."

Rhian Davies
Partner

Bolt-on acquisitions

SAV Credit Limited

In March 2010 Electra Partners, together with existing investors and additional investor Varde Partners, backed SAV's acquisition of a £835 million credit card portfolio from Citigroup.

We first invested in SAV Credit, the UK's leading specialist credit card provider, in March 2006.

The acquisition, which builds on the success of the Marbles deal in 2007, provides SAV with an additional 540,000 credit card customer accounts, effectively doubling the company's total number of customers to over one million and tripling the size of the receivables portfolio to more than £1.2 billion.

"This transformational deal consolidates SAV's market-leading position as a specialist lender and is yet another example of our strategy to support and enhance our portfolio whilst providing the potential for substantial upside".

David Symondson
Deputy Managing Partner



In December 2009 we invested a further £23.6 million in Premier Asset Management to facilitate the acquisition of the management contracts for two OEIC fund umbrellas from Aberdeen Unit Trust Managers.

Premier is a retail fund manager distributing funds through IFAs as well as other discretionary and advisory channels. This bolt-on acquisition has transformed Premier, almost doubling assets under management to £2.6 billion without a significant increase in fixed costs and bringing in funds which are in more mainstream investment areas.

"Since the beginning of the downturn we have concentrated on protecting and enhancing our portfolio. This bolt on is a prime example of the strategy; it is transformational for Premier, has significant synergistic benefits and the potential for substantial upside for Electra".

Alex Cooper-Evans
Partner

Outlook

The economic environment remains unstable and concerns of a double-dip seem justified. Whilst there are prospects for higher levels of investment activity in the market, a number of firms with time constrained capital are under pressure to invest (particularly from GPs who are likely to struggle to raise future funds) which has resulted in many transactions remaining highly priced. In view of this, we believe that caution is still required in making new investments today.

Our portfolio is in good health being largely non-cyclical and defensively positioned. Despite the existing overhang of private equity funds in the market today, we remain optimistic about strengthening our pipeline of deals as Electra's flexible investment strategy is not confined by timescale, deal type or sector. This allows us to see a wide variety of opportunities for our investors.

Portfolio progress

CREDIT OPPORTUNITIES

In late 2009 and early 2010 Credit Opportunities, the €32.5 million secondary debt special purpose vehicle we launched in October 2009 to invest in stressed debt, sold 12 of its 14 positions. Buying discounted senior A and B loans at circa 75p during 2009 and selling at circa 95p later in the year when the markets closed has been a very successful, opportunistic investment which has achieved an attractive IRR.

BAXI / BDR THERMEA

October 2009 saw Baxi combine with Dutch competitor De Dietrich Remeha to form BDR Thermea Group. We made a further investment in the new entity alongside Baxi's majority shareholder, BC Partners, to support this transaction.

De Dietrich Remeha is a good strategic fit for Baxi; the complementary geographical strengths and product ranges with limited overlap are expected to give rise to significant synergy opportunities. With some 6,400 employees, BDR Thermea has become Europe's third largest boilermaker.

We have been involved in this investment since 1997 when we provided finance to support the buyout of Newmond from Williams Holdings. Electra supported the business through the acquisition of Baxi in 2000 and the secondary buyout by BC Partners in 2004 when we realised the majority of our investment, but re-invested £14.9 million. As at 31 March 2010, our 6% stake in BDR Thermea is valued at £55.6 million.

LONDON & STAMFORD

When London & Stamford raised a further £225 million through a rights issue in July 2009 we invested a further £10 million, bringing our total investment in the listed company to £30 million.

Since then, September 2009 saw London & Stamford make an opportunistic purchase of a block of newly developed apartments on the site of the former Arsenal Football Stadium for £41 million. In addition, the company acquired a freehold distribution unit at Tamworth for £33.3 million in January 2010 and also sold a prime office building in Leeds for £51.3 million in February 2010 (purchased for £37.6 million in May 2009).



ELECTRA PARTNERS LLP

Electra Partners is an independent private equity fund manager with over 25 years experience in the mid-market buyout sector.

Our flexible investment approach allows us to invest across a broad range of sectors and financial instruments including equity, senior equity, convertibles and mezzanine debt.

Concentrating principally on Western Europe and with the majority of investments expected to be made in the United Kingdom, we seek to invest in the region of £20 million to £75 million per transaction.

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